

**Performance Audit
Accounts Receivable**

May 2003

**City Auditor's Office
City of Kansas City, Missouri**

May 28, 2003

Honorable Mayor and Members of the City Council:

This performance audit of accounts receivable was initiated by the City Auditor pursuant to Article II, Section 13 of the city charter. The performance audit focuses on the amounts of receivables, and the methods used to invoice, collect, and record payments for services.

More than \$26 million in accounts receivable are owed to the city. Identified receivables include special assessment amounts that for some accounts are inaccurate, but efforts to correct these inaccuracies are limited. Microfilmed records of water service account adjustments are inadequate to comply with state record retention requirements. Centralized records on city receivables do not exist. Instead, departments maintain receivable information individually. Government accounting standards will soon require annual reporting of all city receivables.

City departments do not consistently utilize best practices for billing and collecting accounts receivable. Some departments send bills without due dates, and not all departments assess interest for late payments or impose consequences for non-payments. While collection efforts for most receivables include collection agencies or the courts, some departments do not segregate incompatible duties, many departments do not assess the effectiveness of collection efforts, and citywide policies for receivables are non-existent. We found millions in receivables have been owed for at least 90 days. Improving effectiveness may require centralized collection efforts.

We recommend the Director of Finance develop a mechanism to prevent and systematically identify and correct errors in special assessment receivables, develop citywide guidelines for billing and recording accounts receivable, and establish a method of identifying all monies owed to the city. We recommend the City Manager consider establishing a procedure for centralized collection of accounts receivable. We also recommend the Water Services Director discontinue service to all delinquent customers for non payment of water bills, and comply with record retention requirements for water bill adjustments. We further recommend the Fire Chief ensure all fire code re-inspection receivables can be readily identified.

A draft of this report was sent to the City Manager, Director of Finance, Director of Water Services, and Fire Chief on April 22, 2003. Management's response is included as an appendix. We appreciate the courtesy and cooperation extended to us by city staff throughout the audit. The audit team for this project was Anatoli Douditski, Joyce Patton, and Gary White.

Mark Funkhouser
City Auditor

Accounts Receivable

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Introduction

Objectives

This citywide audit of accounts receivable was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the City Auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.¹ This audit was designed to answer the following questions:

- What types of revenues should be recognized as accounts receivable for the city?
- What is the amount of the city's accounts receivable and how long have they been owed?
- Are the city's accounts receivable billed and collected promptly, and accounted for correctly?

Scope and Methodology

Our citywide review of accounts receivable focused on the amounts of receivables, how long it takes to collect them, and the methods used to invoice, collect, and record payments for services.

The audit was conducted in accordance with generally accepted government auditing standards. Methods included:

- Surveying city departments regarding receivables.
- Interviewing city staff and the city's external auditor.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U. S. Government Printing Office, 1994), p. 14.

- Analyzing city financial records and receivables information provided by department staff and the city's external auditor.
- Reviewing professional literature and the work of auditors in other jurisdictions.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Legislative Authority

Section 77 of the city charter charges the Director of Finance with the supervision of collection, custody, and disbursement of all city monies and allows the City Manager to authorize utility departments to collect money due the city from the utility. Section 79 of the city charter was amended in August 1999 to allow non-utility departments to collect monies owed them and then turn these monies over to the city's Treasury Division.

Accounts Receivable Defined

Receivables are generally defined as "claims held against customers and others for money, goods, or services."² For the purposes of this audit, we defined accounts receivable as:

The monies owed for government goods and services already provided. Receivables are recognized once the claim has become legally enforceable, measurable, and available.

The monies we considered receivables include airport charges, rental fees for convention facilities, water and sewer service charges, special assessments, and municipal court fines that have been adjudicated. Our review excluded monies owed for taxes, licenses, and permits.

² Keiso, Donald E. and Weygandt, Jerry J., *Intermediate Accounting, Fifth Edition*, (New York: John Wiley & Sons, 1986), p. 272.

GLOSSARY

Accounts receivable: The amount owed by a customer or user of a service for which a fee is required, if payment was not made at the time of service delivery.

Age: The time elapsed after billing dates or due dates.

Aging schedule: An analysis showing how long accounts receivable have been outstanding. It usually shows the percentage of receivables by various time intervals relating to due date.

Accrual basis of accounting: Accounting for revenues and expenses by recording them when they are incurred without regard to the date of receipt or payment of cash.

Cash basis of accounting: Accounting for revenues by recording them when received without regard to the period to which they apply.

Due date: The date an account receivable becomes due.

Past due: An obligation not paid by the due date.

Source: W. W. Cooper and Yuji Ijiri, editors, *Kohler's Dictionary for Accountants*, 6th Edition, (New Jersey: Prentice Hall, Inc., 1983).

Accounts Receivable in City Departments

We contacted city departments and asked them to provide information on activities that matched our definition of accounts receivable. Exhibit 1 shows total revenues for a sample of billable services the city provided in fiscal year 2002. Revenue figures for some services include cash payments, receivables, and inter-account transfers between city departments.

Performance Audit: Accounts Receivable

Exhibit 1. Revenues for Billable Activities by Department and Service, Fiscal Year 2002

Department	Service	Revenues
Aviation	Rental and Other Fees	\$ 35,063,736
	Passenger Facility Charges	16,160,522
	Landing Fees	9,242,472
	Hotel/Motel Courtesy Vehicle Fees	61,755
	Fingerprinting Fees	23,259
City Planning and Development	Miscellaneous Building and Lot Rentals	1,211,015
	Relocation Fees	120,700
	Computer Mapping and Map Sales	29,014
	Sale of City Property	9,677
Convention and Entertainment Centers	Equipment Rental Charges and Other Fees	9,053,187
	Facility Space Rental Charges	4,547,167
Environmental Mgmt.	Haz Mat Pick-up Reimbursement	283,819
Finance	Special Assessments	3,781,487
	Jackson County Drug Tax Reimbursement	2,569,137
	Postage Sales	1,161,363
	Duplicating Services	874,542
	Copier Sales	402,461
	Employee Travel Reimbursements	66,040
Fire	Re-inspection Fees	2,845
Health	Air Quality Inspections	125,056
	Medicaid Reimbursement Payments	123,537
	Restaurant Re-inspection Fees	33,350
Municipal Court	Moving Violation Fines	10,253,893
	General Ordinance Violation (GOS) Fines	1,569,913
	Housing Court Fines	581,657
	Parking Fines	535,423
Neighborhood and Community Services	Rent Payments – Linwood Multi-Purpose Center	39,174
	Dead Animal Pick-up Fees	11,598
	Fees for Animals Brought in from Other Jurisdictions	7,184
Public Works	Fuel Sales	53,568
Water Services	Water Consumption	64,881,343
	Sewer Service Charges	46,703,061
	Storm Water Utility Charges	5,938,746
	Miscellaneous Job Order Revenue	1,037,152
	Meter Sales	276,866
	Sewer Inspection Fees	37,234
Total		\$216,872,953

Sources: AFN and city department staff.

Findings and Recommendations

Summary

More than \$26 million in accounts receivable are owed to the city. This includes special assessment amounts that for some accounts are inaccurate, but efforts to correct these inaccuracies are limited. Microfilmed records of water service account adjustments are inadequate to comply with state record retention requirements and hamper efforts to verify the legitimacy of the adjustment. Centralized records on city receivables do not exist. Instead, departments maintain receivable information individually. Government accounting standards will soon require annual reporting of all city receivables.

City departments do not consistently utilize best practices for billing and collecting accounts receivable. Some departments send bills without due dates, and not all departments assess interest for late payments or impose consequences for non-payments. While collection efforts for most receivables include collection agencies or the courts, some departments do not segregate incompatible duties, many departments do not assess the effectiveness of collection efforts, and citywide policies for receivables are non-existent. We found that millions in receivables have been owed for at least 90 days. Improving effectiveness may require centralized collection efforts.

We recommend the Director of Finance develop a mechanism to prevent and systematically identify and correct errors in special assessment receivables, develop citywide guidelines for billing and recording accounts receivable, and establish a method of identifying all monies owed to the city. We recommend the City Manager consider establishing a procedure for centralized collection of accounts receivable. We also recommend the Water Services Director discontinue service to all delinquent customers for non payment of water bills, and comply with record retention requirements for water bill adjustments. We further recommend the Fire Chief ensure all fire code re-inspection receivables can be readily identified.

Receivables Owed to the City Are Significant

More than \$26 million in accounts receivable are estimated to be owed to the city. This includes special assessment amounts that for some accounts are inaccurate. Microfilmed records of water service account adjustments are inadequate to comply with state record retention requirements. Centralized records on city receivables do not exist. Instead, departments maintain receivable information individually. One department does not record receivable information in a way that allows easy retrieval. Government accounting standards will soon require annual reporting of all city receivables.

Receivables Estimated to Exceed \$26 Million

Twelve departments report total city receivables of \$26.3 million. However, some special assessment accounts include errors from adjusting entries which are not systematically corrected. Incomplete records of prior year water service account adjustments do not comply with state record retention requirements. Government accounting standards will soon require annual reporting of all city receivables.

Reported receivables exceed \$26 million. We requested departments provide us with the amounts on invoices that had not been paid as of September 30, 2002 to identify the amount of the city's accounts receivable.³ The 12 departments with billable activities report \$26.3 million in receivables. (See Exhibit 2.)

Exhibit 2. Accounts Receivable by Department

Department	Accounts Receivable
Finance	\$15,926,329
Municipal Court	3,796,532
Water Services	3,175,006
Aviation	2,574,059
Convention and Entertainment Centers	415,498
Environmental Management	164,690
Parks and Recreation	127,219
Health	37,478
City Planning and Development	26,764
Neighborhood and Community Services	6,597
Public Works	3,874
Fire	980
Total	\$26,255,026

Source: Department staff.

³ Municipal Court provided the amount of outstanding fines as of December 5, 2002 and bad checks as of December 3, 2002.

Special assessment receivable figures include adjustment errors. We identified errors in some special assessment accounts. Treasury staff report they were caused by incorrect adjusting entries,⁴ however, they further report they are unable to devote staff time to systematically review and correct the accounts, and acknowledge they have limited systematic controls to prevent or detect adjusting entry errors. Instead, they may spot check some accounts that appear to be incorrect during downtime months like February. The Director of Finance should establish a mechanism to prevent and systematically identify and correct errors in special assessment receivables.

Prior year water service adjustment records are incomplete.

Microfilmed records of customer account adjustments do not include all documents supporting the adjustment decision. According to Water Services staff, all documents involving customer account adjustments, including adjustment forms and customer correspondence, are retained for one year. After that, the adjustment form is microfilmed, while correspondence and other documents that show how staff arrived at the decision to adjust a customer's account are discarded.

Missouri Statutes require that microfilmed documents accurately reproduce the original documents in all detail.⁵ They also prohibit the destruction of records that support existing or outstanding assets or liabilities.⁶ Not retaining these support documents also inhibits subsequent efforts to verify that adjustment decisions were legitimate. The Director of Water Services should ensure that all documents used to justify adjustments to water bills are retained in accordance with state record retention requirements.

Receivable Information Is Not Centrally Maintained

Centralized records on receivables do not exist. Instead, city departments maintain records individually, utilizing varied methods of collecting and storing data on receivables. One department does not record receivables in its computer system until payment is received.

Citywide records on receivables are unavailable. Records on receivables are maintained by departments individually, making it difficult to determine the total amount of money the city is owed at a particular point in time. Individual departments may also be unknowingly duplicating collection efforts, by pursuing the same individuals or businesses for unpaid receivables. In the absence of

⁴ Accounting transactions which are intended to correct prior billing or payment errors.

⁵ Missouri Revised Statutes, § 109.120.

⁶ Missouri Revised Statutes, § 109.156.

centralized information, we obtained receivable data from each department.

Information on fire re-inspection receivables is not readily available.

The Fire Department conducts fire code compliance inspections of businesses, schools, and other establishments in the city. Organizations that fail to renew their fire permits or correct fire code violations during the first two inspections are billed \$70 for each subsequent inspection. However, the department does not record these billings in its computer system. Re-inspection charges are initially recorded only on the paper inspection forms. When payment is received, the re-inspection charge is entered into the computer. As a result, Fire staff are unable to readily identify total receivables owed. The Fire Chief should ensure department staff can readily identify all re-inspection receivables.

Revised standards require reporting all known receivables. The Governmental Accounting Standards Board's requirements for state and local governments were recently modified to include reporting all receivables using the accrual method. According to Statement 34:

Revenues, expenses, gains losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place.⁷

Recording amounts owed when goods and services are exchanged, an accounting practice known as the accrual method, allows the city to easily identify all that is owed and assists in subsequent efforts to evaluate the success of collection efforts. Knowledge of all receivables increases the city's financial flexibility as staff are aware of the monies that could be collected if collection efforts are successful, and decreases the chances that these assets may be mismanaged or lost. For assets like accounts receivable, reporting receivables in accordance with GASB 34 requires recognizing them when the good or service is provided.

Kansas City and other local governments with total annual revenues of \$100 million or more are required to apply the requirements of GASB 34 to financial statements for periods beginning after June 15, 2001. For Kansas City, Missouri, financial statements prepared for fiscal years 2003 and beyond are affected. Complying with the new accounting standards requires reporting all receivables. The Director of Finance should establish a method of identifying all receivables owed to the city.

⁷ *Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, (Norwalk, Connecticut: Governmental Accounting Standards Board, 2000), p. 74.

Collection Practices Are Inadequate

City departments do not consistently utilize best practices for billing and collecting accounts receivable. Some departments send bills without due dates, and not all departments assess interest for late payments or impose consequences for non-payments. While collection efforts for most receivables include collection agencies or the courts, some departments do not segregate incompatible duties, most departments do not assess the effectiveness of collection efforts, and written policies are inadequate. We found millions in receivables that have been owed for at least 90 days. Improving effectiveness may require centralized collection efforts.

Billing and Collecting Efforts Could Be Improved

City departments do not consistently utilize best practices for billing and collecting accounts receivable. While collection agencies or the courts are used to collect the bulk of the city's receivables, bills do not always include due dates, interest is not always charged for late payments, consequences are not always imposed for non-payments, and some departments do not segregate incompatible responsibilities.

Best practices for receivables were identified. We reviewed professional literature, accounting textbooks, self assessment questionnaires, information on audits of receivables conducted by other jurisdictions, and recommendations regarding management practices from the Government Finance Officers Association. Using these sources, we identified the following best practices for accounts receivable:

- Bills should specify when payments are due.
- Interest should be assessed for late payments.
- Consequences for nonpayment should be imposed.
- Collections efforts should include collection agencies or the courts.
- Incompatible responsibilities should be segregated.
- Effectiveness of collection efforts should be measured.
- Written procedures should be developed.

Some bills lack due dates. Bills for services sent out by some divisions of the City Planning and Development, Parks and Recreation, Finance, Health, and Neighborhood and Community Services departments do not include due dates. Omitting due dates on invoices may cause the customer to delay or forget to make the payment, lengthening the period that the receivable remains unpaid. It also makes it difficult to assess

interest or consequences for late or missed payments. Best practices recommend that due dates be included on all invoices.

Interest charges are not always assessed. If payment is not received by the due date, interest charges are collected for facility rental charges in Convention and Entertainment Centers, water service bills, and receivables in the Aviation Department. Late payments for building rentals collected by City Planning and Development, and Neighborhood and Community Services do not result in additional charges. Public Works does not charge late fees for fuel sales. Late fees are also not assessed for Health Department restaurant re-inspections or rental fees for some parks facilities. Assessing late charges provides an incentive for customers to make timely payments.

Water service is not always discontinued. Best practices include imposing consequences on customers for non-payment. For Water Services, one consequence is discontinued service. However, Water Services does not discontinue water service to all delinquent accounts eligible for turn-off, according to department criteria. Department policies require water service be discontinued to customers who persist in not paying their water bills. Water Services staff routinely identify delinquent accounts that should have their water service discontinued.

Account holders receive letters warning of an imminent turn-off of the water service. However, department staff assert that the actual number of turn-offs depends on the availability of field personnel. The Director of Water Services should ensure water service is discontinued for all delinquent customers in accordance with department turn-off criteria.

Collection agencies and legal options are used for most receivables. Best practices recommend that collection efforts include the use of collection agencies or the courts. Three departments, Aviation, Water Services, and Municipal Court, use collection agencies for at least some of their receivables. Aviation and the Convention and Entertainment Centers report they use the Law Department to seek recovery of unpaid receivables. The Finance Department reportedly uses the Law Department to collect special assessments and charges for duplicating services. Combined, these five departments are responsible for over 98 percent of the \$26.3 million in identified receivables.

Incompatible duties are not always segregated. The methods used by individual departments to handle accounts receivable do not adequately protect the city against the risk of loss or theft. In City Planning and Development, Neighborhood and Community Services, Parks and Recreation, and some divisions of the Health and Finance departments,

employees are in a position to both mismanage accounts receivable and cover up their actions.

In these departments, one individual prepares and sends bills, receives cash payments, posts the payments to the accounting system, deposits the cash, and attempts to recover uncollected receivables. Assigning the same individual these incompatible duties increases the city's risk of loss from fraud or mismanagement, and decreases the chances of such a loss being detected. Best practices recommend that incompatible duties be segregated.

Collection Effectiveness Is Rarely Assessed

Most departments do not measure the success of their collection efforts, as best practices recommend. We could not use one method, determining how long receivables have been owed, for water service billings. For other city services, we found that millions in receivables have been owed for at least 90 days. Improving effectiveness may require centralized collection efforts.

Few departments routinely age their receivables. Best practices recommend that the city know how long receivables have been owed, a process known as aging. Analyzing how long receivables have been owed can indicate points at which the city should send reminder notices, assess interest, or impose penalties. Only Aviation and the Animal Control Division of the Neighborhood and Community Services Department routinely assess their receivables by age.

Water Services cannot identify the age of more than \$3 million in water service bills (including storm water and sewer charges). The department's current billing system identifies the total amount owed for each account, but does not record how long delinquent amounts have been outstanding. According to the management letter for the city's 2002 annual audit, the department's billings/collection system is incapable of producing an aged accounts receivable listing. This deficiency has been noted in annual audits since 1997.

The outside auditor recommended the department investigate periodically obtaining account aging information. In response, city management acknowledged that the current billing system cannot generate an aged accounts receivable report. However, they also reported that the department is implementing a new billing system which will provide information on the age of the department's receivables.

Millions in receivables have been owed for more than 90 days. Using information provided by the departments, we identified receivables by their age. In addition to water service accounts, we also excluded \$15 million in special assessments.⁸ As a result, we identified how long \$7.6 of the city's \$26.3 million in receivables have been owed. About \$4.3 million of the city's receivables have been owed for over 90 days. (See Exhibit 3.)

Exhibit 3. Selected Accounts Receivable by Age

Department	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	181 to 365 Days	Over a Year
Aviation ⁹	\$1,160,559	\$662,376	\$249,549	\$166,005	\$91,241	\$244,330
City Planning & Dev.	0	6,778	15,000	3,953	157	877
Convention & Entertain.	214,806	132,628	7,352	21,099	3,917	35,695
Environmental Mgmt.	2,462	160,709	325	0	1,194	0
Finance ¹⁰	32,477	9,805	6,845	5,036	217,948	182,358
Fire ¹¹	420	560	0	0	0	0
Health	3,362	14,359	6,490	10,777	1,801	690
Municipal Court ¹²	270,652	196,633	156,125	356,199	429,667	2,387,256
Neighbor. & Comm. Svcs.	2,174	2,189	195	2,039	0	0
Parks and Recreation	101,206	8,900	10,110	3,023	3,980	0
Public Works	0	1,408	781	0	1,684	0
Water Services ¹³	13,014	15,339	2,154	44,420	49,764	47,618
Total	\$1,801,132	\$1,211,684	\$454,926	\$612,551	\$801,353	\$2,898,824
Percentage	23.2%	15.6%	5.8%	7.9%	10.3%	37.2%

Source: City department staff.

Professional literature recommends paying particular attention to accounts older than 90 days because they have a low probability of being collected. According to the Credit Research Foundation, less than two percent of receivables in the private sector remained outstanding more than 90 days. In contrast, more than 55 percent of the accounts receivable we aged are over 90 days old. Over 37 percent are over a year old.

Centralized collection efforts should be considered. Maximizing collection of accounts receivable requires utilizing best practices. Successfully accomplishing this on a city-wide basis may also require centralized collection efforts.

⁸ We excluded special assessments because repayment can take up to 20 years without the balance being considered delinquent.

⁹ Some Aviation receivables are due to bankruptcies of airline and car rental companies.

¹⁰ Does not include special assessments.

¹¹ Only reflects re-inspection fees owed and already collected. Total re-inspection fees owed is unknown.

¹² Fines as of December 5, 2002 and bad checks as of December 3, 2002.

¹³ Does not include water service bills.

We sought information on accounts receivable from other jurisdictions. Those reporting problems with receivables cite similar characteristics, namely departments handling their receivables individually, with each department having varying levels of success. In contrast, the jurisdictions reporting more success in managing their accounts receivable indicate they have accounting systems for receivables, actively pursue collection of unpaid amounts, and centrally manage their billing and collection process. In order to improve the city's collection efforts, the City Manager should consider centralized collection efforts.

Centralized Systems Are Reportedly Successful

Auditors in Modesto, California report that the Finance Department took control of their decentralized accounts receivable process last year, after departments handling receivables achieved varying levels of success. The auditor reports that the new system allows the Finance Department to identify all the city's receivables and monitor the status of collections. In Edmonton, Alberta, the city installed an accounts receivable software package that also provides information on the aging of accounts. City staff report the new system is working reasonably well. Roanoke, Virginia has a centralized system wherein departments forward fee information to its Office of Billings and Collections which sends out all bills. The treasurer's office handles collections and pursues delinquencies using collection agencies and attachments to state tax refunds and lottery winnings. Calgary, Alberta also manages receivables through a centralized system, and turns all accounts 60 days overdue to a collection agency.

ERP could assist in managing receivables. The city is reviewing its processes in order to implement the Enterprise Resource Planning project (ERP). A decision now by the City Manager on whether the receivable function should remain decentralized or be partially or fully centralized would increase the likelihood that ERP could improve the city's accounts receivable management efforts.

Written Policies Are Inadequate

Written procedures for accounts receivable are inadequate. Best practices recommend written policies, however, citywide policies for managing receivables do not exist. Although some departments have developed written procedures for receivables, others have not, which adversely affects the city's ability to promote fairness and consistency.

Citywide policies do not exist. The City Charter and Code of Ordinances contain multiple references to the recording, reporting, and collecting of taxes, but nothing concerning non-tax receivables. There

also is not an Administrative Regulation, or guidance from the city's Manual of Instructions on handling receivables. Finance Department staff report that no citywide policies exist and that they have a minimal role in each department's handling of accounts receivable.

Some departments lack written policies. With some exceptions, individual departments have not developed their own written procedures for accounts receivable. Aviation, Convention and Entertainment Centers, Water Services, and some functions in the City Planning and Development, Finance, and Health departments had written procedures. No written procedures were identified in the Parks and Recreation, Public Works, Neighborhood and Community Services, Municipal Court, and Fire Departments. In the absence of written procedures, we found that employees did not always keep track of whether bills were prepared for services provided, or whether payments were received.

Best practices recommend that departments have up-to-date written policies and procedures for billing, recording, and collecting accounts receivable. Written procedures promote uniformity, fairness, and consistency. They provide a point of reference for employees and supervisors. Written policies and procedures are necessary because they help ensure an effective control environment and define roles and responsibilities for the accounts receivable function.

Citywide guidelines are needed. The Director of Finance should draft an Administrative Regulation for the City Manager's approval that provides guidelines to city departments on how to bill, collect, record, and monitor accounts receivable.

The Administrative Regulation should include procedures that enable departments to accurately record accounts receivable, and allow the Finance Department to identify receivable amounts to comply with government accounting standards. Instructions for monitoring receivables should be included, as well as guidance on the proper segregation of duties in order to safeguard city assets.

Recommendations

1. The Fire Chief should ensure all fire code re-inspection receivables can be identified.
2. The Director of Finance should develop a mechanism to prevent and systematically identify and correct errors in special assessment receivables.
3. The Director of Water Services should ensure that the documents justifying water bill adjustments are retained in accordance with state record retention requirements.
4. The Director of Finance should establish a method of identifying all receivables owed to the city.
5. The Director of Water Services should ensure water service is discontinued for all delinquent customers in accordance with department turn-off criteria.
6. The City Manager should consider centralizing accounts receivable collection efforts.
7. The Director of Finance should draft for the City Manager's approval an Administrative Regulation providing guidance to city departments on billing, collecting, monitoring, and accounting for receivables.

Appendix A

City Manager's Response



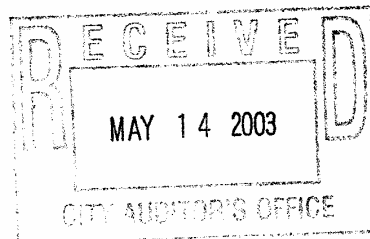
Office of the City Manager

DATE: May 13, 2003

TO: Mark Funkhouser, City Auditor

FROM: Wayne A. Cauthen^{d.c.}, City Manager

SUBJECT: Accounts Receivable Audit



I have reviewed your audit of Accounts Receivable, have solicited comments from the other departments for whom responses were requested, and provide the following comments regarding the recommendations contained in the audit report.

1. The Fire Chief should ensure all fire code re-inspection receivables can be identified.

Agree

The Kansas City Fire Department will work with the Information Technology Department to examine its options for implementing this recommendation by utilizing KIVA or by obtaining the Tiburon Fire Prevention module and include it with the new KCFD records management systems.

2. The Director of Finance should develop a mechanism to prevent and systematically identify and correct errors in special assessment receivables.

Agree

The Finance Department agrees with the recommendation and has developed a written procedure to better control the initial data input for all adjustments to special assessment accounts. Additionally, work has been done to ensure the current software correctly accounts for adjustments once entered into the system. Finally, when financially feasible, the department supports the development of system-generated management reports to assist the systematic detection of errors.

3. The Director of Water Services should ensure that the documents justifying water bill adjustments are retained in accordance with state record retention requirements.

Agree

The Water Services Department will work with the Records Management Office to ensure that the department's practices comply with state record retention requirements.

4. The Director of Finance should establish a method of identifying all receivables owed to the city.

Agree

In the preparation for the implementation plan for GASB Statement No. 34 the department set the level of materiality for accounts receivable at \$25,000 and plans to include this standard in its FY 2002-03 financial statements.

5. The Director of Water Services should ensure water service is discontinued for all delinquent customers in accordance with department turn-off criteria.

Agree with clarification

It must be noted that shutting off delinquent accounts is only one step in our collection process. The department believes it is more cost effective to use a progressive approach to the collection process. As the time between billing and payment increases, the methods used to collect the delinquency are progressively more severe. However, as the severity escalates so does the cost to apply and correct the actions taken. So, instead of shutting off all eligible delinquencies as soon as they occur, the department tries to resolve the delinquency by other more cost effective methods. Also, it is important to note that shutting off water service to a house or building effectively makes the structure uninhabitable and could have consequences for the health and well being of our citizenry.

The basic progression for collection of accounts receivable is the inclusion of a due date as well as a late payment service charge on the bill itself. The second step is a delinquent notice, which is generated if there is no payment on the account after the due date; it explains that water service can be shut off at any time for the delinquent amount. The third step is the generation of a turn off notice if payment has still not been received. There is an additional interest charge for bills that unpaid for more than one period. If the delinquency continues, the department takes steps to discontinue service. If the account is still not paid and it is over \$500 for water service accounts and \$1,000 for storm water only accounts, the department then takes steps to lien the property. For some delinquent accounts, where there have been repeated turn-offs of service, and the water continues to be turned-on, the department installs a curb stop lock that prevents someone from restoring water service without paying. The last step is to discontinue service by digging up and/or crimping the service line. These methods are extremely expensive for both the Water Services Department and the customer, so they are used in only a few cases.

For apartment complexes, where the customer is not the individual tenant, the department takes a slightly different approach in that the final step in the progression is placing a lien on the property. The department does not turn off water service to apartment complexes, and this action is consistent with direction received from the City Council.

6. The City Manager should consider centralizing account receivable collection efforts.

Agree

There appears to be credible evidence that centralization of the accounts receivable function can improve the monitoring and collection of these funds. Moving to a centralized process in Kansas City certainly warrants additional investigation, and I will assign a task group to evaluate and report back to me the merits of this approach within the next 60 days.

7. **The director of Finance should draft for the City Manager's approval an Administrative Regulation providing guidance to city departments on billing, collecting, monitoring, and accounting for receivables.**

Agree

The Finance Department agrees to prepare a draft administrative regulation establishing this policy and a detailed Manual of Instruction that provide detailed guidance to city departments on billing, collections, monitoring, and accounting for accounts receivable based on policy guidelines as a result of implementing recommendation 6 of this report.